

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA
A COMPONENT UNIT OF THE VERMILION PARISH
POLICE JURY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011 AND 2010

Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana's, (the District) discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and it's ability to address the next and subsequent year challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Government Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments" and is intended to provide the financial results for the fiscal years ending December 31, 2011 and 2010.

GASB 34 requires the presentation of two basic types of financial statements: District-wide and fund financial statements. However, due to the fact that the District consists of a single proprietary fund type, the District-wide and Fund financial statements are equivalent.

DISTRICT-WIDE FINANCIAL STATEMENTS

The District-wide statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are three District-wide statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Summary of Net Assets

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets	\$ 675,901	\$ 671,986
Assets Limited as to Use	246,725	222,854
Capital Assets, net book value	6,057,068	6,065,433
Other Assets	<u>20,946</u>	<u>21,426</u>
Total Assets	<u>\$ 7,000,640</u>	<u>\$ 6,981,699</u>
Liabilities		
Current Liabilities	\$ 15,059	\$ 22,578
Current Liabilities Payable With Assets Limited as to Use	81,905	77,296
Long-term Liabilities	<u>3,690,508</u>	<u>3,746,418</u>
Total Liabilities	<u>3,787,472</u>	<u>3,846,292</u>
Net Assets		
Invested in Capital Assets, net of related debt	2,310,656	2,265,501
Restricted	164,820	145,558
Unrestricted	<u>737,692</u>	<u>724,348</u>
Total Net Assets	<u>3,213,168</u>	<u>3,135,407</u>
Total Liabilities and Net Assets	<u>\$ 7,000,640</u>	<u>\$ 6,981,699</u>

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011 AND 2010

As indicated by the statement above, total net assets at December 31, 2011, are \$3,213,168. Net assets can be separated into three categories: net capital assets net of related debt, restricted assets, and unrestricted assets.

Net capital assets are a combination of funds available for capital assets, plus capital assets at original cost less accumulated depreciation and related debt. The original cost of capital assets is \$7,483,400 which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition of each capital asset. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, and expensed over the estimated useful life of the asset. Total accumulated depreciation is \$1,426,332. Most capital asset acquisitions are financed through long-term debt. Primarily, long-term debt is repaid as the debt service comes due from water system revenues that have been set aside for the debt retirement. Total debt associated with capital assets is \$3,746,412.

Restricted net assets consist of debt retirement funds, funds that are required to be set aside for contingencies, and customer security deposits. Restricted net assets represent an amount equal to the assets limited as to use, less the related liabilities. The breakdown of these funds is as follows:

	<u>2011</u>	<u>2010</u>
Revenue Bond Sinking Fund	\$ (33,937)	\$ (31,920)
Waterworks Reserve Fund	82,197	71,104
Waterworks Contingency Fund	83,242	72,121
Customer Security Deposits	3,858	4,793
Board Designated Funds	29,460	29,460
Total	<u>\$ 164,820</u>	<u>\$ 145,558</u>

The remaining net assets balance of \$737,692 is unrestricted. The unrestricted net assets is an accumulation of current and prior years' operating results. This balance is directly affected each year by the District's operating results.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011 AND 2010

RESULTS OF OPERATIONS

	2011		2010	
	Amount	% of Total	Amount	% of Total
Program Revenue				
Customer Charges	\$ 712,487	95.84%	\$ 626,431	95.50%
Other General Revenues				
Interest Income	21,463	2.89%	20,143	3.07%
Grant Income	9,500	1.28%	9,372	1.43%
Other Income	-	0.00%	31	0.00%
Total Other General Revenues	30,963	4.16%	29,546	4.50%
Total Revenues	743,450	100.00%	655,977	100.00%
Expenses				
Water Expenses	107,880	16.21%	102,599	15.70%
Salaries and Benefits	144,489	21.71%	136,297	20.86%
Depreciation	159,659	23.98%	163,068	24.95%
Insurance Expense	17,649	2.65%	16,329	2.50%
Repairs and Maintenance	19,597	2.94%	15,243	2.33%
General and Administrative	47,842	7.19%	42,418	6.49%
Interest Expense	163,521	24.57%	165,974	25.40%
Bad Debt Expense	5,052	0.77%	9,058	1.39%
Loss on the sale of assets	-	0.00%	2,519	0.38%
Total Expenses	665,689	100.01%	653,505	100.00%
Increase (Decrease) in Net Assets	\$ 77,761	10.46%	\$ 2,472	0.38%

As indicated above, net assets increased by \$77,761 for the year ended December 31, 2011. This increase is primarily due to the increase in water revenue as a result of extended water lines, increased customer base and increase in water usage rates.

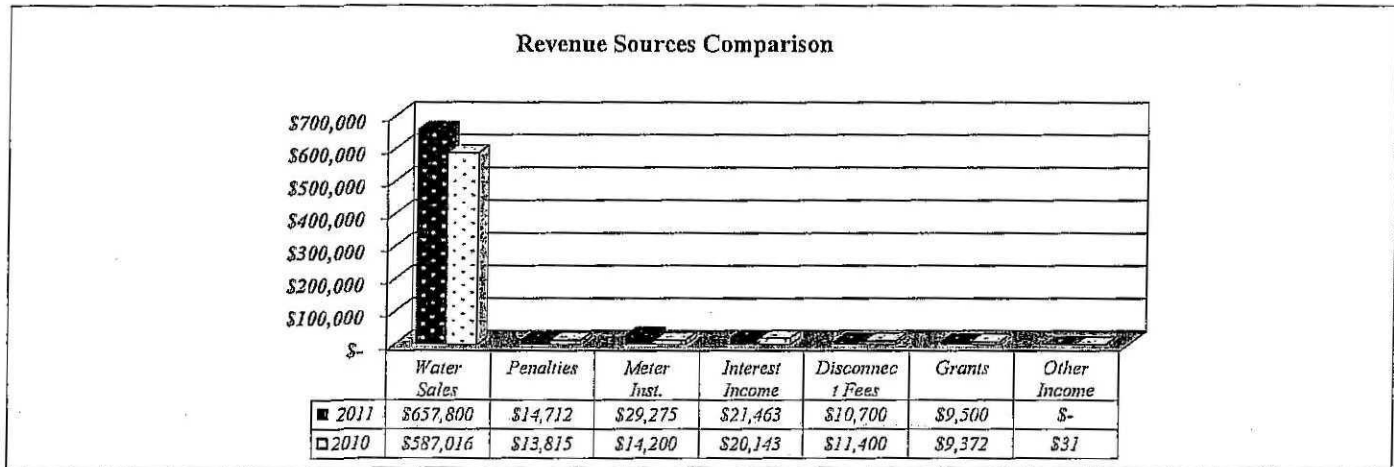
SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011 AND 2010

REVENUES

The following chart illustrates the District's sources of revenues by percentages:



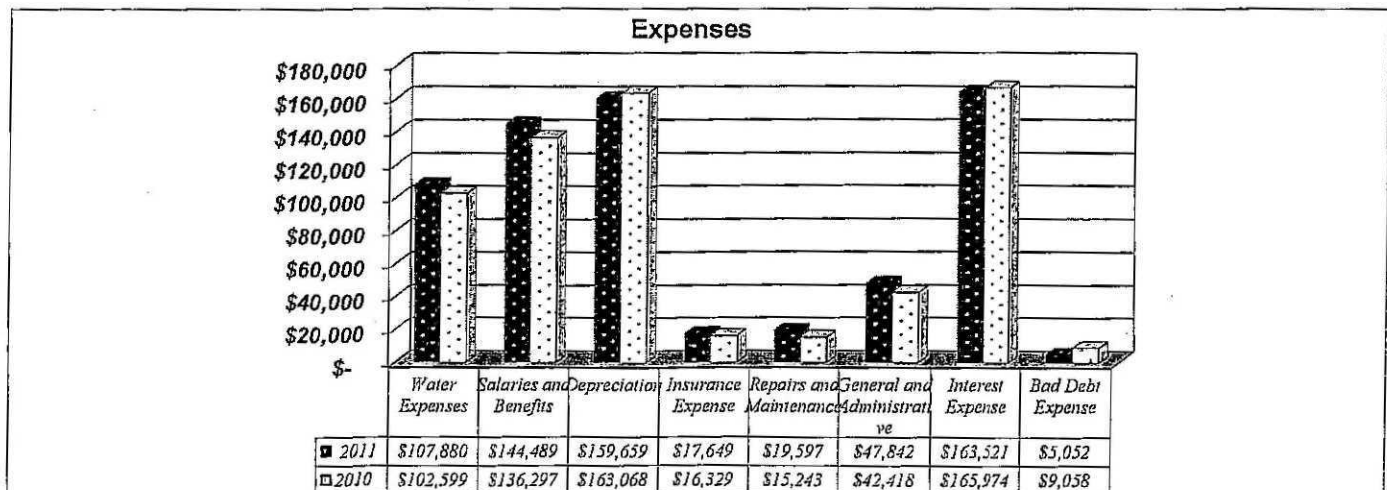
Water sales in the amount of \$657,800 represents ninety-six percent (96%) of total District revenues. The District has relied mainly on water charges to customers to fund its operations.

No state or parish funds were received to supplement operations.

Prior to the implementation of GASB 34, the payments received from customers which was less than the actual cost of the extension were recorded as direct charges against the equity account Contributed Capital From Customers. However, with the implementation of GASB 34, the costs of these installations and extensions which are funded by customers are reported as revenue.

EXPENSES

The following chart illustrates the District's expenses by percentages:



Major expenses include Water Expenses of \$107,880, Salaries and Benefits Expenses of \$144,489, Depreciation of \$159,659, General and Administrative Expense of \$47,842 and Interest on Long-term Debt of \$163,521.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011 AND 2010

CAPITAL ASSETS

At December 31, 2011, the District had funds invested in net capital assets as follows:

CAPITAL ASSETS	
Land	\$ 17,477
Buildings	163,440
Property, Plant, and Equipment	7,284,049
Construction in Progress	<u>18,434</u>
Gross Capital Assets	7,483,400
Less: Accumulated Depreciation	<u>(1,426,332)</u>
Net Capital Assets	<u>\$ 6,057,068</u>

Purchases of fixed assets totaled \$151,293 and \$68,802, for the years ended December 31, 2011 and 2010, respectively. The District is planning to complete new extensions of water lines for the fiscal year ending December 31, 2012.

DEBT

At the end of this year, the District had \$3,746,412 in Revenue Bonds outstanding. This is a combination of the Series 1995 Revenue Bonds, the Series 1998 Revenue Bonds and the 2007 Revenue Bonds. All issuances were used in the construction of the water system. As part of these bond issuances three cash accounts were created whose use was limited as follows:

Waterworks Revenue Bond and Interest Sinking Fund - An amount sufficient to accumulate the amount needed to assure the prompt payment of the principal and interest installments as they become due is required to be set aside into this fund and may be used only for such purpose. The balance in this fund is \$30,268.

Waterworks Reserve Fund - The District is required to set aside \$260 monthly into this fund, beginning June 1997, until the sum of \$62,376 has been accumulated. From July 20, 2007, through June 20, 2008, the sum of \$771 must be deposited monthly. Beginning July 20, 2008, the sum of \$906 must be deposited monthly until \$217,322 has been accumulated. The balance in this fund is \$82,197.

Waterworks Depreciation and Contingency Fund - The District is required to deposit \$262 per month into this fund beginning June 1997. Monies in this fund shall be used to pay for major repairs due to damage caused by unforeseen catastrophes and for replacements made necessary by the depreciation of the system. From July 20, 2007, through June 20, 2008, the sum of \$773 must be deposited monthly. Beginning July 20, 2008, the sum of \$908 must be deposited monthly until \$217,322 has been accumulated. The balance in this fund is \$83,242.

There were no new issuances of debt during the fiscal years ended December 31, 2011 and 2010; retirements totaled \$53,520 and \$51,232 for the years ended December 31, 2011 and 2010. The District is planning to issue new debt during the fiscal year ended December 31, 2012, to finance the extension of water lines.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011 AND 2010

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Southeast Waterworks District 2, 417 Trahan Street, Abbeville, LA 70510.



INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Southeast Waterworks District Number 2
of the Parish of Vermilion, State of Louisiana
Abbeville, Louisiana

We have audited the accompanying component unit financial statements of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana, (the District) a component unit of the Vermilion Parish Police Jury, as of and for the years ended December 31, 2011 and 2010. These component unit financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.


We conducted our audit in accordance with generally accepted auditing standards of the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of State, Local Governments, and Non-profit Organizations; and USDA-OIG Rural Utilities Bulletin 1780-30. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements of the District taken as a whole. The accompanying schedules of expenses are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)

May 30, 2012

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

STATEMENT OF NET ASSETS

DECEMBER 31,

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 347,390	\$ 364,746
Accounts Receivable, less allowance for doubtful accounts of \$42,687 in 2011, and \$37,634 in 2010	57,553	43,454
Investments	<u>270,958</u>	<u>263,786</u>
Total Current Assets	<u>675,901</u>	<u>671,986</u>
ASSETS LIMITED AS TO USE		
Revenue Bond Sinking Cash	30,268	30,176
Waterworks Reserve Fund Cash	82,197	71,104
Waterworks Contingency Fund Cash	83,242	72,121
Customer Security Deposits Cash	21,558	19,993
Board Designated	<u>29,460</u>	<u>29,460</u>
Total Assets Limited as to Use	<u>246,725</u>	<u>222,854</u>
CAPITAL ASSETS		
Land	17,477	17,477
Buildings	163,440	163,440
Property, Plant, and Equipment	7,284,049	7,143,193
Construction In Progress	<u>18,434</u>	<u>10,051</u>
Gross Capital Assets	7,483,400	7,334,161
Less: Accumulated Depreciation	<u>(1,426,332)</u>	<u>(1,268,728)</u>
Net Capital Assets	<u>6,057,068</u>	<u>6,065,433</u>
OTHER ASSETS		
Bond Issue Costs	15,300	15,922
Prepaid Expenses	4,961	4,795
Accrued Interest Receivable	<u>685</u>	<u>709</u>
Total Other Assets	<u>20,946</u>	<u>21,426</u>
TOTAL ASSETS	<u>\$ 7,000,640</u>	<u>\$ 6,981,699</u>

The accompanying notes are an integral part of these financial statements.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

STATEMENT OF NET ASSETS

DECEMBER 31,

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 11,260	\$ 18,381
Payroll Liabilities	<u>3,799</u>	<u>4,197</u>
Total Current Liabilities	<u>15,059</u>	<u>22,578</u>
CURRENT LIABILITIES PAYABLE WITH ASSETS LIMITED TO USE		
Accrued Interest Payable	8,301	8,582
Current Portion of Long-Term Debt	55,904	53,514
Customer Security Deposits Liability	<u>17,700</u>	<u>15,200</u>
Total Current Liabilities Payable with Assets Limited as to Use	<u>81,905</u>	<u>77,296</u>
LONG-TERM LIABILITIES		
Revenue Bonds Payable	<u>3,690,508</u>	<u>3,746,418</u>
Total Long-Term Liabilities	<u>3,690,508</u>	<u>3,746,418</u>
TOTAL LIABILITIES	<u>3,787,472</u>	<u>3,846,292</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	2,310,656	2,265,501
Restricted (Expendable)	164,820	145,558
Unrestricted	<u>737,692</u>	<u>724,348</u>
TOTAL NET ASSETS	<u>3,213,168</u>	<u>3,135,407</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,000,640</u>	<u>\$ 6,981,699</u>

The accompanying notes are an integral part of these financial statements.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS DECEMBER 31,

	2011	2010
OPERATING REVENUES		
Water Sales	\$ 657,800	\$ 587,016
Meter Installation Charges	29,275	14,200
Disconnect Fees	10,700	11,400
Penalties	14,712	13,815
 Total Operating Revenues	 712,487	 626,431
 OPERATING EXPENSES		
Water Expenses	107,880	102,599
Salaries and Benefits	144,489	136,297
Depreciation	159,659	163,068
General and Administrative Expenses	47,842	42,418
Insurance Expense	17,649	16,329
Repairs and Maintenance	19,597	15,243
Bad Debt Expense	5,052	9,058
 Total Operating Expenses	 502,168	 485,012
 OPERATING INCOME	 210,319	 141,419
 NON-OPERATING INCOME (EXPENSES)		
Interest Income	21,463	20,143
Grant Income	9,500	9,372
Other Income	-	31
Gain (Loss) on Sale of Equipment	-	(2,519)
Interest Expense	(163,521)	(165,974)
 Total Non-Operating Income (Expense)	 (132,558)	 (138,947)
 CHANGE IN NET ASSETS	 77,761	 2,472
 NET ASSETS - BEGINNING	 3,135,407	 3,132,935
 NET ASSETS - ENDING	 \$ 3,213,168	 \$ 3,135,407

The accompanying notes are an integral part of these financial statements.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

STATEMENTS OF CASH FLOWS

DECEMBER 31,

	2011	2010
CASH FLOWS FROM OPERATING INCOME		
Receipts from Customers	\$ 706,811	\$ 613,204
Payments to Suppliers	(240,261)	(173,323)
Payments to Employees	(115,234)	(109,682)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>351,316</u>	<u>330,199</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Other Income	-	31
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>31</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant Income	9,500	9,372
Purchases of Fixed Assets	(151,294)	(68,802)
Principal Payments - Revenue Bonds	(53,520)	(51,232)
Interest Paid	(163,802)	(165,640)
NET CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(359,116)</u>	<u>(276,302)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	21,487	20,143
Purchases of Investments	(7,172)	(4,933)
NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>14,315</u>	<u>15,210</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	6,515	69,138
CASH AND EQUIVALENTS - BEGINNING		
(Including Restricted Cash of \$222,854 and \$170,133 for 2011 and 2010 respectively)	<u>587,600</u>	<u>518,462</u>
CASH AND EQUIVALENTS - ENDING		
(Including Restricted Cash of \$246,725 and \$222,854 for 2011 and 2010 respectively)	<u>\$ 594,115</u>	<u>\$ 587,600</u>

The accompanying notes are an integral part of these financial statements.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

STATEMENTS OF CASH FLOWS

DECEMBER 31,

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS		
FROM OPERATING INCOME:		
Operating Income	\$ 210,319	\$ 141,419
ADJUSTMENTS TO RECONCILE OPERATING INCOME		
TO NET CASH FLOWS FROM OPERATING INCOME:		
Depreciation	159,659	163,068
Amortization	622	622
Loss on Sale of Equipment	-	2,519
Provision for Doubtful Accounts	5,052	9,058
(Increase) Decrease in Accounts Receivable	(19,151)	3,089
Increase in Prepaid Expenses	(166)	(212)
Increase (Decrease) in Accounts Payable	(7,121)	8,114
Increase (Decrease) in Other Current Liabilities	(398)	722
Increase in Customer Security Deposits	<u>2,500</u>	<u>1,800</u>
Total Adjustments	<u>140,997</u>	<u>188,780</u>
NET CASH FLOWS FROM OPERATING INCOME	<u>\$ 351,316</u>	<u>\$ 330,199</u>

The accompanying notes are an integral part of these financial statements.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southeast Waterworks District Number 2, of the Parish of Vermilion, State of Louisiana (the District), which is a component unit of the Vermilion Parish Police Jury, was created under the provisions of Louisiana Revised Statutes (LRS) 33:3811, for the purpose of providing water to rural areas of Vermilion Parish. The District is governed by a board of commissioners composed of five members appointed by the Vermilion Parish Police Jury. The Vermilion Parish Police Jury exercises oversight responsibility with the District; however, the Police Jury does not exercise any control over specific expenditures of the District.

All activities over which the District exercises oversight responsibility have been incorporated to form the District's reporting entity. Oversight responsibility is determined by financial interdependency, selection of governing board, designation of management, accountability for financial matters, and an ability to significantly influence operations.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a Proprietary Fund, the District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges to customers related to the sale of water. The District also recognizes as operating revenue fees related to connecting and disconnecting service to customers. Operating expenses for the District's proprietary fund include water expenses, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by the District in the financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

DEPOSITS AND INVESTMENTS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the District to invest in obligations of the U.S. Treasury, certificates or other obligations of the United States of America, and time certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana.

RECEIVABLES AND CUSTOMERS

The District accounts for bad debts using the allowance method. Expense is recognized during the period in which a specific account is determined to be uncollectible and an allowance for doubtful accounts decreases the net receivable amount.

At December 31, 2011, the District had 1,952 customers connected for service. Of that total 1,886 were residential customers and 66 were commercial customers.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following represents the aged receivable balances at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Unbilled	\$ 30,017	\$ 24,093
0-30 days	11,680	6,377
31-60 days	15,039	11,939
61-90 days	5,324	4,399
Over 90 days	<u>38,180</u>	<u>34,280</u>
	100,240	81,088
Less: Allowance for Doubtful Accounts	<u>(42,687)</u>	<u>(37,634)</u>
Total Receivables	<u>\$ 57,553</u>	<u>\$ 43,454</u>

ASSETS LIMITED AS TO USE

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants. The "Revenue Bond Sinking Fund" is used to accumulate resources necessary to meet annual debt service requirements. The "Waterworks Reserve Fund" is used to segregate from funds available for operations, funds equal to five percent of the original bond issuance. These funds serve to prevent the District from defaulting on debt service payments in the event of deficiencies in utility operations. The "Waterworks Contingency Fund" is used to accumulate resources to meet any unexpected contingencies or to fund significant asset replacements or repairs. The "Customer Security Deposits" represents advance deposits received from water customers which shall be either refunded upon termination of services or applied toward billings in arrears. At December 31, 2011 and 2010, board designated funds amounted to \$29,460 for the expansion of water lines that had not yet been completed as of year end.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The accounting and reporting treatment applied to capital assets and long-term liabilities are determined by its measurement focus. Property, plant, and equipment in the Proprietary Fund of the District are recorded at cost. Property, plant, and equipment donated to these Proprietary Fund operations are recorded at their estimated fair value at the date of donation.

Property, plant, and equipment are depreciated in the Proprietary Fund using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Utility System Improvements	25 - 50
Equipment	5 - 10

Long-term debt and other obligations of the Proprietary Fund of the District are reported as liabilities. For the Proprietary Fund, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as other assets.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET ASSETS

Net Asset classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt", above.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses reported for the periods presented. The District regularly assesses these estimates and, while actual results may differ, management believes that the estimates are reasonable.

VACATION AND SICK LEAVE

Employees of the District are entitled to a one week vacation. The earned days do not vest; therefore, no liability has been recorded for compensated absences in the financial statements.

RECLASSIFICATIONS

To be consistent with current year classifications, some items from the previous year have been reclassified with no effect on net assets.

GRANTS AND DONATIONS

Grants and donations (including capital contributions of assets) are recognized as revenue when all eligibility requirements, including time requirements, imposed by the provider have been met.

INCOME TAXES

The District is a political subdivision and exempt from taxes.

ADVERTISING

The District expenses advertising costs as incurred.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 2: CASH AND INVESTMENTS

At year end, the District's carrying amount of deposits was \$598,780 and the bank balance was \$594,115. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was collateralized with securities held by the pledging financial institution's trust department or agent in the financial institution's name. For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The District's investments generally are reported at fair value. In accordance with SFAS No. 157, the District groups assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. For example, municipal securities valuations are based on markets that are currently offering similar financial products. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabil ities Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Federal Home Loan Mortgage Corporation Medium Term Note/ AA+/Aaa/AAA	\$ 102,561	\$ 102,561	\$ -	\$ -
Louisiana State Citizens Property Insurance Corporate Assessment Revenue Bonds Series 2006-B Moody's BAA1/S&P A-	37,213	37,213	-	-
Louisiana State Citizens Property Insurance Corporate Assessment Revenue Bonds Series 2006-C-1 Moody's Aa3/S&P AA-	131,184	131,184	-	-
Total	\$ 270,958	\$ 270,958	\$ -	\$ -

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 3: CAPITAL ASSETS

Capital Assets, by major category, is as follows at December 31, 2011 and 2010:

	ASSET LIFE IN YEARS	12/31/2010	ADDITIONS	DEDUCTIONS	12/31/2011
Land		\$ 17,477	\$ -	\$ -	\$ 17,477
Buildings	50	163,440	-	-	163,440
Property, Plant, and Equipment	5-50	7,143,193	142,911	(2,055)	7,284,049
Construction in Progress		10,051	8,383	-	18,434
Gross Capital Assets		7,334,161	151,294	(2,055)	7,483,400
Less: Accumulated Depreciation		(1,268,728)	(159,659)	2,055	(1,426,332)
Net Capital Assets		\$ 6,065,433	\$ (8,365)	\$ -	\$ 6,057,068

NOTE 4: LONG-TERM DEBT

The District issues revenue bonds which it pledges income derived from the water system to pay the debt. Revenue bonds outstanding at year end are as follows:

	2011	2010
1) Utility Revenue Bonds dated May 12, 1997; payable in monthly installments of \$3,644 through March 12, 2035; including interest at 4.5%	\$ 629,600	\$ 644,634
2) Utility Revenue Bonds dated March 16, 1998; payable in monthly installments of \$1,554 through March 12, 2038; including interest at 4.875%	277,328	282,318
3) Utility Revenue Bonds dated July 20, 2007; payable in monthly installments of \$1,012 beginning August 12, 2008 through July 12, 2047 at 4.25%	222,497	225,122
4) Utility Revenue Bonds dated July 20, 2007; payable in monthly installments of \$11,900 beginning August 12, 2008 through July 12, 2047 at 4.25% Interest only payment of \$112,906 was due on July 12, 2008.	2,616,987	2,647,858
Total Revenue Bonds	3,746,412	3,799,932
Less: Current Portion	(55,904)	(53,514)
Total Long-term Debt	\$ 3,690,508	\$ 3,746,418

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 4: LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ended December 31,</u>	<u>Total Debt Service</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 217,322	\$ 55,904	\$ 161,418
2013	217,322	58,402	158,920
2014	217,322	61,012	156,310
2015	217,322	63,738	153,584
2016	217,322	66,587	150,735
2017-2021	1,086,612	380,334	706,278
2022-2026	1,086,612	473,322	613,290
2027-2031	1,086,612	589,101	497,511
2032-2036	1,009,484	653,158	356,326
2037-2041	803,700	578,133	225,567
2042-2047	862,354	766,721	95,633
Total Debt Service to Maturity	<u>\$ 7,021,984</u>	<u>\$ 3,746,412</u>	<u>\$ 3,275,572</u>

Long-term debt activity for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Revenue Bonds	\$ 3,799,932	\$ -	\$ (53,520)	\$ 3,746,412

Portion of Long-Term Debt due within one year:

Utility Revenue Bonds - 1997	\$ 15,723
Utility Revenue Bonds - 1998	5,238
Utility Revenue Bonds - 2007	2,738
Utility Revenue Bonds - 2007	32,205
Total Portion of Long-Term Debt due within one year	<u>\$ 55,904</u>

NOTE 5: FLOW OF FUNDS - RESTRICTIONS ON USE OF UTILITY REVENUES

Under the terms of the bond indenture on the outstanding revenue bonds, all income and revenues of every nature, earned or derived from operations of the water utility system are pledged and dedicated to the retirement of said bonds and are to be set aside into the following special funds.

Waterworks Revenue Bond and Interest Sinking Fund - An amount sufficient to accumulate the amount needed to assure the prompt payment of the principal and interest installments as they become due is required to be set aside into this fund beginning June 1997, and may be used only for such purpose.

Waterworks Reserve Fund - The District is also required to set aside \$260 monthly into this fund, beginning June 1997, until the sum of \$62,376 has been accumulated. From July 20, 2007 through June 20, 2008 the sum of \$771 must be deposited monthly. Beginning July 20, 2008 the sum of \$906 must be deposited monthly until \$217,322 has been accumulated.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 5: FLOW OF FUNDS - RESTRICTIONS ON USE OF UTILITY REVENUES (CONTINUED)

Waterworks Depreciation and Contingency Fund - The District is required to deposit \$262 per month into this fund beginning June 1997. Monies in this fund shall be used to pay for major repairs due to damage caused by unforeseen catastrophes and for replacements made necessary by the depreciation of the system. From July 20, 2007 through June 20, 2008 the sum of \$773 must be deposited monthly. Beginning July 20, 2008 the sum of \$908 must be deposited monthly until \$217,322 has been accumulated.

All revenues received in any year, and not required to be paid into any of the aforementioned funds, are regarded as surplus and may be used for any lawful purposes.

NOTE 6: DIRECTORS' FEES

The following is a schedule of directors' fees paid by the District for the year ended December 31,

	2011	2010
David Greco	\$ 375	\$ 975
Nally Simon	975	975
Curnal Cessac	1,050	975
Clint Dugas	1,050	900
Susan Wilhelm	825	675
Byron Perry	525	375
Pervis Meaux	375	-
Total	<u>\$ 5,175</u>	<u>\$ 4,875</u>

NOTE 7: INSURANCE IN FORCE

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The following is a schedule of insurance in force at December 31, 2011:

DESCRIPTION OF COVERAGE	COVERAGE AMOUNTS
Worker's Compensation	Statutory
Surety Bonds:	
Board President	\$ 250,000
Vice-President	\$ 250,000
Secretary	\$ 250,000
Office Manager	\$ 250,000
Plant Manager	\$ 250,000
Office Secretary	\$ 250,000
Automobile Liability (Each Accident)	\$ 1,000,000
General Premises Liability (Each Occurrence)	\$ 1,000,000
General Premises Liability (General Aggregate)	\$ 3,000,000
Blanket Building and Contents	\$ 1,275,595
Flood - Building	\$ 367,400
Flood - Contents	\$ 500,000

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 8: WATER RATES

The following represents water rates in force at December 31, 2011:

Residential

First 2,000 Gallons	\$ 14.00
All Over 2,000 Gallons Per 1,000 Gallons	\$ 3.75

Commercial

First 2,000 Gallons	\$ 19.00
All Over 2,000 Gallons Per 1,000 Gallons	\$ 3.75

Penalty

10% of Water Charge Paid After Due Date

NOTE 9: DEFINED CONTRIBUTION RETIREMENT PLAN

All full-time employees participate in a defined contribution plan after one year of service. The District contributes 7.50 percent (7.50%) of each participant's gross pay. All amounts are vested immediately. The plan was not set-up to allow employee contributions to the plan. The covered payroll for the plan was \$110,060 and \$96,072 for 2011 and 2010, respectively. The District's total payroll for the same periods was \$115,234 and \$109,682 for 2011 and 2010, respectively. Total contributions for the year ended December 31, 2011 and 2010, were \$8,092 and \$7,241 or approximately 7.50 percent (7.50%) of covered payroll.

NOTE 10: SUBSEQUENT EVENTS

On March 10, 2011, A loan resolution was made and approved declaring the intention of the board to issue water revenue bonds in the amount not to exceed \$1,880,000 for the purpose of acquiring and constructing improvements and extensions to the waterworks system. The bonds had not been issued by the date of this report.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, May 30, 2012, and determined that no events other than those discussed above, occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

SCHEDULE OF EXPENSES

DECEMBER 31,

	<u>2011</u>	<u>2010</u>
WATER EXPENSES		
Chemicals	\$ 36,398	\$ 32,956
Engineering Fees	1,405	2,562
Meter Readers	24,204	23,721
Line Location and Testing	2,790	3,971
Supplies	11,121	9,563
Utilities	<u>31,962</u>	<u>29,826</u>
 Total Water Expenses	 <u>\$ 107,880</u>	 <u>\$ 102,599</u>
 GENERAL AND ADMINISTRATIVE EXPENSES		
Advertising	\$ 1,241	\$ 520
Amortization	622	622
Fuel Expenses	7,470	4,701
Bank Charges	908	743
Finance Charge - Credit and Debit Cards	851	678
Freight	1,823	1,402
Legal, Auditing and Accounting	6,675	6,142
Office	11,767	12,719
Operations	1,528	1,384
Postage	6,714	6,546
Printing	2,763	1,116
School and Training	710	682
Telephone & Cellular	<u>4,770</u>	<u>5,163</u>
 Total General and Administrative Expenses	 <u>\$ 47,842</u>	 <u>\$ 42,418</u>



*Glen P. Langlinais, C.P.A.
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*Patrick M. Guidry, C.P.A.
Ashley V. Breaux, C.P.A.
Jonathan P. Primeaux, C.P.A., M.B.A.
Kathryn S. Hoag, C.P.A.*

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Commissioners
Southeast Waterworks District Number 2
of the Parish of Vermilion, State of Louisiana
Abbeville, Louisiana

We have audited the component unit financial statements of the Southeast Waterworks District Number 2, Parish of Vermilion, State of Louisiana (the District), a component unit of the Vermilion Parish Police Jury, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated May 30, 2012. We conducted our audit in accordance with generally accepted accounting principles of the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the District as of and for the years ended December 31, 2011 and 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider all weaknesses described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan" to be material weaknesses.


A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider all weaknesses described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan" to be significant deficiencies.

COMPLIANCE

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit are described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan". We did not audit the District's response and accordingly we express no opinion on it.

This communication is intended solely for the information and use of management Southeast Waterworks District Number 2, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties



LAMELINAIS BROUSSARD & KOHLENBERG
(A corporation of Certified Public Accountants)

May 30, 2012

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2011

We have audited the financial statements of Southeast Waterworks District Number 2, a component unit of the Vermilion Parish Police Jury, State of Louisiana (The District), as of and for the year ended December 31, 2011 and 2010, and have issued our report thereon dated May 30, 2012.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-133. Our audits of the financial statements as of December 31, 2011 and 2010 resulted in unqualified opinions.

Section 1: Summary of Auditor's Reports

A. Report on Internal Control and Compliance Material to the Financial Statements:

Internal Control

Material Weaknesses:	Yes
Significant Deficiencies:	Yes

Compliance	
Compliance Material to Financial Statements	No

Section II: Financial Statement Findings

A - Issues of Noncompliance

None Noted.

B- Significant Deficiencies

Finding 2011-1 Financial Statement Preparation

Condition: The District relies on its outside auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, outside auditors cannot be considered part of the District's internal control structure, and because of the limitations of the District's small accounting staff, the design of the District's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Criteria: To ensure good internal controls and best practices for governmental entities.

Effect: This condition represents a material weakness in the District's internal control system.

Recommendation: The District should continue to outsource the preparation of its financials to its independent auditors and carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their contents and presentation.

Management Response: The Board of Commissioners has decided that it is not cost effective to hire someone who is qualified to prepare financial statements. The board and management will continue to review the financials before accepting them.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2011

Finding 2011-2 Segregation of Duties

Condition: The District does not segregate the authorization, recording, and reconciliation of transactions and the custody of assets related to those transactions.

Criteria: To ensure good internal controls and best practices for governmental entities.

Effect: This condition represents a material weakness in the District's internal control system.

Recommendation: The authorization, recording, and reconciliation of transactions and decisions and the custody of assets related to those transactions should be segregated. The District should segregate these duties amongst employees and/or mitigate lack of segregation with increased management oversight.

Management Response: Due to the small number of employees employed by the Water District, the Board of Commissioners has decided that the duties cannot be segregated any more than they are at present. The Board thinks that it is cost prohibitive for the Water District to hire more employees so that duties can be segregated. The board continues to closely monitor activities that are not segregated.

Finding 2011-3 Journal Entries

Condition: There are excessive audit adjustments that were proposed.

Criteria: To ensure good internal controls and best practices for governmental entities.

Effect: This condition represents a material weakness in the District's internal control system.

Recommendation: The District should monitor the general ledger to the extent of the abilities of its accounting staff.

Management Response: The Water District will make it a policy that adjustments be posted to the general ledger in a more timely fashion and it will be monitored more closely by the Board of Commissioners.

SECTION III: Management Letter Items

There are no management letter items at December 31, 2011.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2011

Section I: Internal Control and Compliance Material to the Financial Statements

Finding 2010-1 Budget Approval

Condition: The minutes of the board of commissioners did not reflect an adoption resolution of the District's Budget.

Resolved.

Finding 2010-2 Publication of Minutes

Condition: The minutes of the board of commissioners have not been published in an official journal.

Resolved.

Finding 2010-3 Financial Statement Preparation

Condition: The District relies on its outside auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, outside auditors cannot be considered part of the District's internal control structure, and because of the limitations of the District's small accounting staff, the design of the District's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Unresolved. See Finding 2011-1.

Finding 2010-4 Segregation of Duties

Condition: The District does not segregate the authorization, recording, and reconciliation of transactions and the custody of assets related to those transactions.

Unresolved. See Finding 2011-2.

Finding 2010-5 Journal Entries

Condition: There are excessive audit adjustments that were proposed.

Unresolved. See Finding 2011-3.